

# Franklin Intermediate High Yield Municipal SMA

Commentary | as of September 30, 2025

## **Key Takeaways**

- Markets: In the third quarter of 2025 (Q3), new issuance of municipal (muni) bonds exceeded the average seen in the
  past few years, driven by a 34% year-over-year surge in July issuance. By quarter end, the yield on the benchmark 10year US Treasury (UST) note fell by eight basis points (bps) to 4.15%, while the 30-year UST yield decreased by four bps
  to 4.73%. US markets rose on clearer tariff policies, economic resilience, and a more dovish Fed, which cut rates by 25
  bps to 4.00%-4.25% in September.
- · Contributors: Overweight muni bonds with no external credit rating. Overweight revenue-related muni bonds.
- **Detractors:** Underweight bonds with longer maturities.
- Outlook: Municipal bond valuations continue to appear attractive, particularly on a tax-adjusted basis. In a more
  challenging environment, strong bottom-up research and disciplined security selection will be essential to identifying
  relative value and preserving portfolio quality.

#### **Performance Review**

- Our overweight to bonds that do not have external credit ratings contributed to relative returns as these issues generally
  performed better than other rated bonds during the quarter.
- Sector exposure helped relative results. We focus on revenue-related bonds, including pre-paid gas structured bonds and
  muni bond real estate issues from land development and housing projects, which outperformed general obligation muni
  bonds during the quarter.
- Duration positioning curbed performance. Our underweight to bonds on the longer end of the muni yield curve detracted from returns in a falling interest-rate environment.

#### **Outlook**

- Muni bond issuance exceeded historical averages in Q3 as issuers, who had been reluctant to issue new bonds under the
  looming threat to their tax-exempt status, came to market. Positive fund flows into the asset class were not able to keep up
  with the supply. The muni bond yield curve continues to steepen, with longer-maturity bond valuations cheapening
  somewhat.
- Fundamentals remain broadly stable, however, as the economy slows and inflationary pressures ease, tax revenue growth at the state and local level is expected to moderate, placing greater importance on credit selectivity going forward.
- Municipal bond valuations continue to appear attractive, particularly on a tax-adjusted basis. Yields are near multi-year highs, allowing investors to lock in compelling income. In a more challenging environment, strong bottom-up research and disciplined security selection will be essential to identifying relative value and preserving portfolio quality.

#### Average annual total returns (%) - as of September 30, 2025

Composite	3-Mo*	6-Mo*	YTD*	1-Yr	3-Yr	5-Yr	10-Yr	15-Yr	20-Yr	25-Yr	Inception	Inception Date
Net of Fees	2.57	2.27	2.09	0.65	_	_	_	_	_	_	3.57	11/30/2022
Pure Gross of Fees	2.95	3.03	3.23	2.16	_	_	_	_	_	_	5.12	11/30/2022
Benchmark	3.00	2.87	2.64	1.39	_	_	_	_	_	_	3.65	_

<sup>\*</sup>Cumulative total returns

#### Benchmark(s)

Benchmark = Bloomberg Municipal Bond Index

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#### **Glossary**

A basis point (bp, or bps) is one one-hundredth of one percent (1/100% or 0.01%).

**Duration** is a measure of the sensitivity of a bond's price to changes in interest rates.

The **yield curve** shows the relationship between yields and maturity dates for a similar class of bonds.

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The Bloomberg Municipal Bond Index is a broad measure of the municipal bond market with maturities of at least one year. Source: Bloomberg Indices.

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